The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Slow Growth Ahead

Several important gauges of economic activity have declined recently, indicating that the pace of business output continues to fade. One of the more significant was an additional 1.3 per cent drop in the index of leading economic indicators in June compared with May. The index has been drifting downward since reaching its peak in November, 1980 and has now fallen a total of 2.1 per cent. However, this retreat does not necessarily signal that we are in a recession—yet.

For one thing, the peak-to-trough drop in the index of leading economic indicators has so far been much more modest than that associated with any of the seven post-World War II recessions. Although it may be misleading to assume that the trough in the leading indicators has already been reached—especially since high interest rates are still stifling the housing sector as well as exerting downward pressure on equity and commodity prices—the decline to date is only one-fifth of that which has occurred on average during the seven postwar recessions. It is also well below the 7.4 per cent decline in the index associated with the 1960-61 recession—the smallest postwar peak-to-trough drop associated with recession. The greatest slide occurred during the 1973-75 recession when the index collapsed by 20.2 per cent.

The June drop in the leading indicators was confined to a few areas. More than one-half of the decline resulted from a 16 per cent drop in the number of permits issued for future housing construction. An additional 40 per cent of the fall was accounted for by a decline in the prices of sensitive commodities. However, a large part of the decrease in commodity prices probably reflects reduced speculative activity and more cautious inventory accumulation— both of which are due primarily to high interest rates, rather than a significant fading in industrial demand for these materials.

Similarly, the decline in the index of coincident indicators—which moves in tandem with economic activity—does not yet signal a recession. Although this index has now been declining for four consecutive months, the monthly contractions during the March-June period have so far been significantly smaller than those registered in any of the postwar recessions. They have averaged only 0.15 per cent per month, less than one-fifth the 0.8 per cent average monthly drop in the index of coincident indicators which occurred during the preceding seven recessions.

Are Interest Rates Responsible?

As a result of the upturn in consumer spending in June, installment debt outstanding rose a seasonally adjusted $1.93 billion during the month. It was paced by a sharp rise in outstanding revolving credit which includes the use of credit cards at retailers, gasoline companies and commercial banks as well as overdraft checking privileges. Although this increase was somewhat stronger than May's $1.35 billion gain, it was substantially weaker than the increases registered during the preceding three months, when it was boosted by the rebate-stimulated rise in outstanding auto credit. Since the withdrawal of the auto rebates, sales have been subdued despite the stepped-up efforts of some automobile manufacturers to subsidize interest rates.

Unlike mortgage payments, however, monthly automobile payments are only modestly affected by fluctuating interest rates. For example, during the first half of 1981, the average price of an automobile sold domestically, including imports, was about $8,250. After a typical down payment of 15 per cent, principal and interest payments on a four-year auto loan contracted at 16 per cent (the average rate to date) would total almost $200 per month. In 1978, when automobile sales surpassed 11 million units, the average interest rate charged on an auto loan was a shade above 11 per cent and the average price of an automobile was $6,470. At that time, principal and interest payments would have totaled about $140 per month on a four-year auto loan.

Thus, in the past two and one-half years, the monthly payment required to finance the average priced new car has risen by about $60, or more than 40 per cent. But of this increase, less than one-third of the rise is due to the five percentage point

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increase in average interest rates. More than two thirds was due to increased sales prices. In fact, at current interest rates and prices, each one percentage point fluctuation in the interest rate results in only a $3.50 change in the monthly payment.

In order to reduce the burden of ever-escalating monthly payments, auto creditors have extended repayment periods. While in 1970 the average loan was for less than three years, in 1981 it is close to four years. For a $7,000 auto loan contracted at 16 per cent, extending the repayment term from three to four years reduces the average monthly principal and interest payment by almost $50—more than offsetting the monthly impact of the escalation in interest rates which has occurred since 1978.

It seems, therefore, that expecting a drop in interest rates alone to trigger a revival in auto sales may be too optimistic. Rather, potential buyers would be much more positively affected in the short run by a slower rise in sales prices, more rapid personal incomes growth or substantial rebates—as evidenced by the favorable sales outcome when they were in effect earlier this year.

Employment Improves Again

Although the average workweek at the nation's factories declined by two-tenths of an hour in June month-over-month and a further one-tenth in July,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/5/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.966	+ .279	+ 4.821
Loans to Depository Inst.	1.118	– .860	+ .291
Float	2.737	– .430	– 1.258
Total Reserve Bank Credit	145.774	– 1.472	+ 7.802
Treasury Deposits with Federal Reserve Banks	2.961	– .102	+ .309
Currency Outside Banks	123.838	+ .397	+ 7.027
Member Bank Reserves:			
Required	40.392	– .503	+ .633
Excess (Deficiency)	.378	– .071	– .232
Total Reserves Held	40.770	– .574	– .401
Net Borrowed Reserves	.513	– .758	+ .304
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.020	– 1.096	+ 9.670

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1B	429.9	– 4.1‡	+ 7.1‡
M-2 (July '81)	1,761.0	+ 5.3	+ 9.1
M-3 (June '81)	2,075.3	+ 9.7	+ 12.1
L (May '81)	2,476.0	+ 7.2	+ 11.0

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 8/14/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.10%	15.15%	15.30%
* Federal Agencies	16.70	17.00	15.80
* Project Notes—Taxfree (46% Taxable Equivalent)	14.72	15.19	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	18.00	18.05	17.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	17.50%	Sep.	17.60%
15- 29 days	17.62	Oct.	17.35
30- 59 days	17.62	Nov.	17.05
60- 89 days	16.00	Dec.	16.90
90-179 days	16.50	Jan.	16.70
180-239 days	14.00	Feb.	16.30
240-270 days	13.00		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	17.45%
30- 89 days	17.50%		
90-120 days	17.12		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,881	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,509	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 1.9%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Jun '81	8.4%	8.4%	12.0%
Change in Producer Prices*	Jul '81n	4.8%	7.2%	20.4%
Civilian Employment (Thousands of Persons)†	Jul '81	98,962	98,392	96,999
Unemployment as % of Civilian Labor Force†	Jul '81	7.0%	7.3%	7.6%
Personal Income*	Jun '81	$ 2,382	$ 2,368	$ 2,127
Leading Indicators Composite Index (1967=100)†	Jul '81	133.8	135.5	123.9
Industrial Production Index (1967=100)†	Jul '81n	153.4	152.9	140.4
Net Change in Consumer Installment Credit†	Jun '81n	$ 1.93	$ 1.35	–$ 2.04
U.S. Merchandise Trade Balance†	Jun '81	–$ 2.10	–$ 2.44	–$ 1.91
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jun '81	1,032	1,159	1,184
New Construction Expenditures*	Jun '81	$ 236.2	$ 239.7	$ 218.5
Total Business Inventories†	Jun '81n	493.5	490.3	464.2
Total Business Sales†	Jun '81n	353.0	349.2	305.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

employers have not yet reduced their payrolls. On the contrary, the overall employment situation improved substantially in July as employment rose, unemployment declined and the unemployment rate—at seven per cent—reached a 15-month low. Total employment rose 0.6 per cent, or by 570,000 workers, to a seasonally adjusted 99 million, paced by employment gains in the service sector. After a decline in June, employment in this area rose by 265,000 in July with retail trade employment expanding vigorously.

The number of unemployed persons, in contrast, decreased a further 3.6 per cent in July, or by 282,000, after falling 4.7 per cent in June. The reduction in the number of unemployed apparently reflects the efforts by employers to hold on to their workers, anticipating that the current slowdown will be brief and that the economy will soon be boosted by the just-approved tax package—to go into effect in October—and by further increases in Federal defense spending. However, the employment situation is still expected to worsen before it gets better. Although inventory levels are not very high by historical standards, there has been a substantial involuntary accumulation in the second quarter which will have to be worked off (Financial Digest—July 27, 1981). With final sales sluggish, the paring of existing inventories may eventually affect new factory orders, industrial production and employment adversely. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/29/81)	126,528	+ 2,105	+37,465
New York City (7/29/81)	30,880	+ 394	+10,561
Commercial Paper (7/29/81)	154,297	– 1,296	+31,846

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/81)	180,479	– 36	+22,071
New York City (7/29/81)	52,231	+ 10	+ 5,023

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/81)	442,601	+ 975	+48,765
New York City (7/29/81)	105,149	+ 802	+16,326

Financial Markets

	Friday 8/14/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.27%	– .75	+ 6.21
180-Day Bills†	15.35	– 1.23	+ 5.70
Longest Bills†	14.55	– 1.86	+ 4.69
Recent Issues:			
15⅞s 7/31/83	16.22	+ .39	
14s 6/30/85	15.56	+ .15	
14⅞s 8/15/91	14.96	+ .26	
13⅞s 5/15/11	14.75	+ .68	
Municipals:			
Bond Buyer—20 Bond Index* (8/13/81)	11.94	+ .31	+ 3.41
Blue List Total ($ Million)	$ 771	– $ 33	– $ 7
30-Day Visible Supply ($ Million)	$2,008	– $209	+ $ 586
Total	$2,779	– $242	+ $ 579
Corporates:			
Moody's Aa Composite (8/13/81	15.20%	– .12	+ 3.14
30-Day Supply ($ Million)	$7,407	– $244	+ $3,796
Stocks:			
Dow-Jones Averages:			
Industrials	936.93	– 5.61	– 29.79
Transportation	408.87	+ 3.32	+ 87.50
Utilities	114.67	+ 4.67	+ 3.64
65 Stocks	371.76	+ 2.26	+ 23.69
Standard and Poor's 500 Stocks	132.49	+ .74	+ 6.77
N.Y.S.E. Composite Index	77.00	+ .42	+ 4.93
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,038	+ 1,214	– 1,366

* 46% Taxable equivalent 22.11%.

† Bond equivalent.

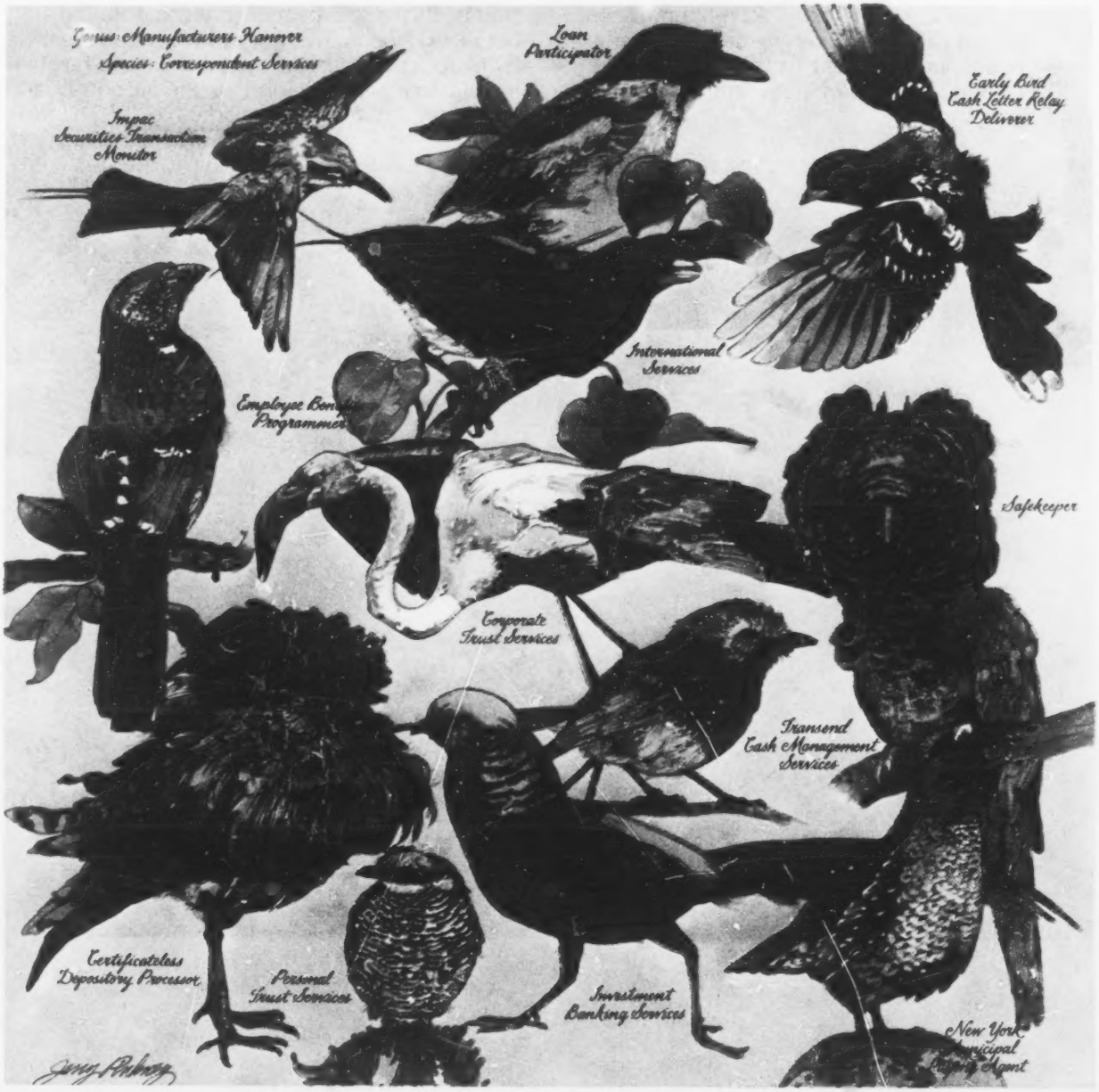
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/14/81	Week Ago
Overnight	18.13%	18.75%
1 month	18.63	19.06
3 month	18.88	19.13
6 month	18.94	19.06
1 year	17.81	18.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.00%	15.00%
Long Term (7 to 15 yrs.)	14.90	14.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/14/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02425	41.24
Canada	.8119	1.2317
Denmark	.1253	7.9800
France	.1658	6.0300
Germany	.3972	2.5175
Italy	.0007994	1250.90
Japan	.004313	231.85
Mexico	.04034	24.79
Netherlands	.3568	2.8025
Switzerland	.4600	2.1740
U.K.	1.8058	.5538

THE CORRESPONDENT WATCHER'S GUIDE.



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